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Honduras

Coffee

Annual

2000

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Report Highlights:

Honduran coffee production is expected to surpass the 3 million bag mark in 1999/00.

Exports should increase accordingly, reaching an estimated 2.825 million bags.

Contraband sales to Guatemala during the period are estimated at roughly 275,000 bags, making it one of Honduras' chief export destinations.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Honduras' 1999/00 coffee crop is expected to experience a 23 percent increase in 1999/00, reaching over 3 million bags. Increasing production area, improving yields, and cyclical reasons are behind this dramatic improvement from the dismal performance experienced in 1998/99 as a result of hurricane Mitch. Cyclical reasons should weigh down the forecast for 2000/01 somewhat but given the expansion in crop area production should continue its upward momentum in the medium term. Exports are expected to reach a new high in 1999/00 at approximately 2.825 million bags, largely due to the increase in production. Contraband exports to the Central American region, which have always been a rather significant share of exports, have reportedly increased exponentially as well. This is due to increased government taxation on coffee exports and better prices in neighboring countries, especially in Guatemala.

PSD Table						
Country	Honduras					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	281	281	288	288	0	293
Area Harvested	243	243	249	249	0	253
Bearing Trees	792	792	806	806	0	820
Non-Bearing Trees	129	129	131	131	0	133
TOTAL Tree Population	921	921	937	937	0	953
Beginning Stocks	127	127	109	109	0	87
Arabica Production	2494	2494	2776	3067	0	2900
Robusta Production	0	0	0	0	0	0
Other Production	0	0	0	0	0	0
TOTAL Production	2494	2494	2776	3067	0	2900
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	2621	2621	2885	3176	0	2987
Bean Exports	2255	2255	2496	2825	0	2550
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	2255	2255	2496	2825	0	2550
Rst,Ground Dom. Consum	257	257	264	264	0	271
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	257	257	264	264	0	271
Ending Stocks	109	109	125	87	0	166
TOTAL DISTRIBUTION	2621	2621	2885	3176	0	2987

Production

After having dipped considerably in 1998/99 as a consequence of hurricane Mitch, Honduran coffee output is expected to rebound in a big way in 1999/00. Total coffee production during the 1999/00 year is expected to reach approximately 3 million bags (60 kilograms) of green bean equivalent (GBE). The Honduran Coffee Institute (IHCAFE) estimates that commercial production, the amount of coffee exporting plants purchase from growers and intermediaries, will reach 2.68 million bags during the period. However, IHCAFE believes actual production is much higher, estimating that roughly 750,000 bags have leaked out to neighboring countries in the form of contraband trade. Conservatively speaking, if only half of this trade actually took place, production could still easily near 3 million bags. Ever-increasing production area, improved yields resulting from more favorable weather, and an upswing in the production cycle all seem to be contributing to this surge. Grower prices, which experience the same roller coaster ride as international market prices, remain relatively favorable for Honduras' 85,000 predominantly low-tech growers. Currently prices are approximately Lps 959 (\$64.15) per 100 lbs. of GBE or Lps. 767 (\$50.64) per 100 lbs. of dry parchment coffee. Moreover, reportedly the quality of the 1999/00 crop is also much improved from a year earlier. In fact, IHCAFE reports that several demanding European customers have praised their Honduran suppliers for the noticeable improvement in quality this year. This increase in quality, however, is not necessarily reflected in prices paid to Honduran growers.

Although production area continues to rise, coffee output for during 2000/01 should take a small step backwards due to cyclical reasons, possibly reaching 2.9 million bags. The 3-5 year outlook remains unchanged at this point, with production expected to continue to expand at a moderate pace.

Consumption

Coffee exporting plants purchase coffee from growers/intermediaries and later sell a share to local roasting plants for domestic consumption. Some roasting plants also have their own plantations which supply their operations and some roasting plants also buy small amounts directly from growers. However, the vast majority of coffee sold domestically is channeled through exporting plants. Total domestic consumption during the 1999/00 year is estimated at 264,000 bags. Ground, roasted coffee remains one of the few products which are still subject to some sort of price control by the government through IHCAFE's marketing mechanism. Actual enforcement is difficult at best and retail prices often escalate beyond government control. At present retail coffee prices range from LPs.24 (\$1.60) to Lps.32 (\$2.14) per pound.

Trade

Two important factors account for the near 600,000 bag growth in exports for the 1999/00 year. The increase in overall supply is certainly the main reason. However, a dramatic increase in coffee smuggling to neighboring countries, particularly to Guatemala, is also an important factor. There are several reasons why this illegal trade has surged in recent months. First of all, in late 1999 the Government of Honduras (GOH) enacted legislation which effectively began charging growers for outstanding loans. This is being done through a \$5 export tax on each exported bag. Consequently, many growers, particularly those with farms near the Guatemalan border, prefer to sell their crop to intermediaries who smuggle it across the border. Guatemalans are able to pay higher prices because their currency is stronger and because their coffee is often sold with premiums in the international market. Hondurans, on the other hand, are often subject to discounts from the international price which currently average \$0.12 per pound. Total exports of coffee during the 1999/00 year are estimated at 2.825 million bags, of which over 10 percent are believed to be clandestine sales to neighboring countries. For 2000/01 exports may drop under 2.6 million bags given lower supply and the possibility of a retention.

The trade matrix that follows shows calendar year exports for 1999 and an estimate for 2000. It is important to note that the export numbers for Guatemala are an estimate of contraband trade. Of the 1,985,867 million bags exported legally in calendar year 1999, 71 percent went to ICO-member markets and 29 percent to non-members. Chief export markets in order of importance were Germany, the United States, and Japan. Total earnings from 1999 exports totaled \$256 million, at an average price of \$0.98 per pound.

Trade Matrix

Export Trade Matrix			
Country	Honduras		
Commodity	Coffee, Green		
Time period	Jan.-Dec.	Units:	60 Kg. Bags
Exports for:	1999		2000
U.S.	368919	U.S.	404630
Others		Others	
Germany	453154		497019
Japan	222441		243973
Guatemala 1/	200000		317500
Italy	142992		156834
S. Korea	138817		152254
Spain	130266		142876
Belgium	96313		105636

Holland	78508		86108
France	77683		85202
Finland	44678		49002
Total for Others	1584852		1793904
Others not Listed	257098		301466
Grand Total	2210869		2500000

1/- Estimate of contraband trade.

Policy

The most significant policy development affecting the coffee sector during the 1999/00 year was the enactment of Decree 152-99, which became effective on Nov. 16, 1999. This legislation consolidated export fees and included a mechanism for recapturing outstanding loans made to producers through a \$5/bag tax on all exports. Of this amount, \$1 goes to finance IHCAFE, \$1.75 to support the National Coffee Fund (a fund geared toward social development purposes in coffee growing areas), and \$2.25 to pay the GOH for outstanding loans that growers have yet to repay. Without payment, growers are unable to access new government credit. As mentioned earlier, the end result of this policy has been a dramatic increase in contraband to escape or at least delay payment to the GOH.

With international prices hovering at roughly \$1 per pound, Honduran coffee authorities are already considering joining forces with other countries to establish a retention in 2000/01. However, this will remain dependent on the availability of international financing.